

UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE
INSPECTOR
GENERAL

MEMORANDUM REPORT ON
REVIEW OF SMALL VALUE ITEMS PROCUREMENTS
KOREA STANDARDS RESEARCH INSTITUTE
LOAN NO: 489-W-093

AUDIT REPORT NO: O-489-82-03

October 21, 1981



Regional Inspector General for Audit
WASHINGTON

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INTRODUCTION

In response to a request from the Asia Bureau, the Office of the Regional Inspector General/Audit/Washington has performed a limited review of Small Value Items Procurements Under Direct Reimbursement Agreement with the Korea Standards Research Institute (Loan No. 489-W-093). The review was done to determine whether funds deposited into an imprest account have been accounted for. In our opinion the funds have been adequately accounted for, but we did note that some funds had been expended after the terminal disbursement date.

BACKGROUND

A \$5.0 million loan was authorized on September 18, 1975 to provide foreign exchange for the procurement of industrial standard equipment, materials and supplies, with the objective of developing an effective national metrology standards system to be managed by the Korean Standards Research Institute.

Based on a Memorandum of Understanding dated January 15, 1976, the National Bureau of Standards of the U. S. Department of Commerce agreed to provide scientific and technical advice, along with administrative assistance, to the Korea Standards Research Institute.

The Institute assigned a Coordinator to represent them at the National Bureau of Standards in the U.S., and, provide administrative support for activities carried out under the terms of the Memorandum of Understanding.

We reviewed Direct Reimbursement Authorization (DRA) No. 06 in the initial amount of \$200,000. This authorization was to provide financing of Small Value Items using a method that conforms to normal commercial practice. Implementation Letter No. 12, dated July 13, 1978, sets forth the purpose of DRA NO. 6.

Some of the funds from DRA 03 were commingled with those from DRA 06. AID officials handling these matters believe that

textbook purchases from DRA 03 were transferred to DRA 06, because of the relatively small unit cost. As a result we looked at some transactions in addition to those resulting from DRA 06.

Under the provisions of Implementation Letter No. 12 USAID/Korea agreed to make an initial deposit of \$30,000 to a dollar account established by the Institute at a banking institution in the U.S. Whenever the balance of \$30,000 was drawn to a level of \$10,000, the Institute would submit to USAID a request for replenishment of the account. The Institute Coordinator in the U.S. is empowered to make disbursements from the funds for the purpose specified.

Through discussions with a number of officials who at one time were associated with the Korea program (it terminated, officially, on September 30, 1980) and an extended file search, we determined that amendments raised the number of Implementation Letters to at least 17, and there could be more. In the process, the original \$200,000 ceiling was lifted, but we were unable to find a document which specified by how much.

Accountability

All funds deposited into the (imprest) account have been accounted for. A number of practices came to our attention which -- if the project would still be ongoing -- we would recommend for modifications. That is:

a. No written definition exists as to what constitutes a Small Value Item. It is the Korean Liaison Officer's impression that it is \$20,000. Of the total 195 checks written since the account was established, two exceeded \$20,000, thirty fell into the \$5,000 to \$20,000 range, and the remaining 163 were below \$5,000. Moreover, nine replenishment checks, supported by proper documentation, restored the balance in the account, but seven exceeded the amount envisioned by Implementation Letter No. 12 (\$20,000). One transfer amounted to more than five times that figure (\$102,470).

b. The actual cash balance in the account at one time sank to a level below \$1.00, causing the Korean Liaison Officer to make two interest-free advances from his own personal resources:

March 15, 1980	\$ 5,000
May 17, 1980	4,500

We were told that the cash replenishment cycle took so much time that such action was needed to pay suppliers.

c. We confirmed the bank balance, by phone, on August 20, 1981, and also established the fact that the project still owes the Liaison Officer the \$100 he advanced from personal resources, to open the account in 1978.

d. The account, established exclusively to handle DRA 06 transactions, also acted as a payment vehicle for a significant volume of other project transactions, principally textbook and scientific journal acquisitions. Consequently, the total transactions and cash traffic exceeded that contemplated in the audit review request (EXHIBIT C). On one occasion the account in the amount of \$2,657 was used as an accommodation clearing account for a non-project activity.

e. Because of the commingling of the Small Value Items Fund with the Library Fund, the current DRA 06 balance is technically in an overdraft position, and nets out with a positive balance only because of the surplus in the Library Fund.

f. Because of the commingling of funds, and the consequent audit of transactions other than Small Value Items in DRA-6, we found that the project may have been overcharged by as much as \$3,102.15. In matching two disbursements totaling \$31,235.50 with equivalent invoices, we found only pro forma invoices totaling \$29,715.50 and actual invoices totaling \$28,133.35. Factors that could effect the ultimate settlement are freight and books temporarily out of stock and/or print.

g. We used the textbook transactions as an opportunity to ask whether and how receipt of all procurements in Korea was being acknowledged. We were told that no arrival reporting system exists. Consequently we are unable to comment on the possibility of short-shipments, breakage, or theft.

h. Price comparisons between unit costs estimated by the Institute, presumably from old catalogues, and actual billings established reasonably close pricing. While in some instances the amount billed exceeded the estimate by a significant percentage, we were able to obtain some current price estimates from the supplier, and found that prices quoted were close to, or higher than the one billed. Our sample covered 12 individual items valued at \$3,906 in August 1979. They would have cost \$5,708, two years later.

Payments After Termination Date

Notwithstanding a Terminal Disbursement Date (TDD) of March 18, 1981, for the entire loan, the Status of Disbursing

Authorizations Report, dated July 31, 1981, identified at least three disbursements subsequent to the TDD: Two on April 3, 1981, and one on June, 1981. The April disbursements applied to DRA 02 and 04, respectively, while the June payment was on DRA 01. Because reporting takes place on an inception-to-date basis, and provides only date of last transaction, we are unable to readily determine how much these post-TDD payments amounted to.

Recommendation No. 1

Assistant Administrator/ASIA, in conjunction with the Office of Financial Management, determine the value of the payments made after the terminal disbursement date, and then, in coordination with AID's General Counsel, determine the legality of the three post-Terminal Disbursement Data payments, and, if necessary, obtain the required authorizations or institute action to recover the funds.

LIST OF REPORT RECIPIENTS

Deputy Administrator (D/A/AID)	1
Assistant Administrator/Bureau for Asia (AA/ASIA)	1
Deputy Assistant Administrator/Bureau for Asia (D/AA/ASIA)	5
Office of Financial Management (FM)	5
General Counsel (GC)	5
Inspector General (IG)	1
AIG/II	1
IG/PPP	1
IG/EMS/C&R	16

Korea Standards Research Institute (KSRI) Liaison Office
Cash Flow Analysis Of Special Imprest Fund
August 21, 1978 Through August 20, 1981

Transaction No.	Per AID Records		Per RIGGS Deposits DRA 06 Only		Per RIGGS Deposits (A) Advances/Accommodations		(B) DRA 03
	Date	Amount	Date	Amount	Date	Amount	Description
1	8-21-78	\$ 30,000.00	8-31-78	\$ 30,000.00	78	\$ 100.00	A Liaison Off.
2	11-6-78	70,000.00	11-24-78	70,000.00	3-29-79	12,302.80	B Libr. Fund
3	2-13-79	40,071.19	2-23-79	40,071.19	4-17-79	78,516.20	B Libr. Fund
4	3-21-79	59,928.81	3-27-79	59,928.81	9-17-79	2,657.00	A Accommodation
5	9-18-79	102,469.58	9-28-79	102,469.58	3-19-80	5,000.00	A Liaison Off.
6	7-11-80	20,530.42	9-5-80	20,530.42	5-27-80	4,500.00	A Liaison Off.
7	10-6-80	11,388.59	10-29-80	11,388.59			
8	11-24-80	50,000.00	12-9-80	50,000.00			
9	3-16-81	11,237.31	4-8-81	11,237.31			
10	10-2-80	24,399.40 1/	-	-			
11	10-2-80	712.70 1/	-	-			
12	10-10-80	4,245.28 1/	-	-			
13	10-6-80	(11,388.59) 1/	-	-			
14	10-6-80	21,857.09 1/	-	-			
Totals		<u>\$435,451.78</u>		<u>\$395,625.90</u> (395,625.90)		<u>\$103,076.00</u> <u>395,625.90</u>	

Total Deposits \$498,701.90

	Replenishment Reports		Other RIGGS Charges		Description
	Date	Amount	Date	Amount	
1	10-30-78	\$ 52,621.29	78	\$ 15.09	Bank Charges
2	1-30-79	40,071.19			
3	4-12-79	31,995.84			
4	8-14-79	139,243.24			
5	11-15-79	78,964.07			
6	3-24-80	40,107.02			
7	9-10-80	21,857.09			
8	3-2-81	79,399.50			
9	8-20-81	11,845.00			
Totals		<u>\$496,104.24</u> (496,104.24)		<u>\$ 15.09</u> <u>496,104.24</u>	

Total Disbursements \$496,119.33

Balance on Hand, August 20, 1981

\$ 2,582.57

DRA 03 \$ 2,839.90
DRA 06 (257.33)

1/ Paid or Adjusted By AID's Office of Financial Management

\$ 2,582.57

EXHIBIT B

*Insert - for your
action, on TV. assuming.
that the records are in
Korea.*

3: AUG 1981

EXHIBIT C

MEMORANDUM

TO: AAG/W, Mr. Herbert Beckington

FROM: A/AA/ASIA, Frederick W. Schieck *FW*

SUBJECT: Request for Audit: Korea Standards Research Institute
Loan No. 489-W-093

Background: The subject \$5.0 million loan was authorized on 9/18/75 to provide foreign exchange for the procurement of industrial standards equipment, materials and supplies, with the objective of developing an effective national metrology standards system and establishing the Korean Standards Research Institute (KSRI) to manage the system. Based on a Memorandum of Understanding dated 1/15/76, the National Bureau of Standards (NBS) of the U.S. Department of Commerce agreed to provide scientific and technical advice, along with administrative assistance to KSRI.

Funds from the loan have been fully committed and disbursed, except a small balance of \$37,932 to cover payments of commodities and small value items (SVIs) ordered prior to expiration of the Terminal Date for Requesting Disbursement (TDD). The original TDD of 9/19/78 was extended to 9/19/79 and, subsequently, to 9/18/80 and 3/31/81.

Under the terms of the Memorandum of Understanding dated 1/15/76, and per Implementation Letter No. 4 dated 9/3/76, KSRI has assigned a Coordinator to represent KSRI at the NBS in the U.S. and, in cooperation with appropriate NBS officials, to provide administrative support for activities to be carried out under the terms of the Memorandum of Understanding. Implementation Letter No. 12, dated 7/13/78, earmarked an initial amount of \$200,000 for procurement of SVIs to be financed through a DRA to USAID/Korea, using a method that conforms to normal commercial practice. Under the provisions of this Implementation Letter, USAID agreed to make an initial deposit in an amount of \$30,000 to a dollar account established by KSRI at a banking institution in the U.S. This is the Riggs National Bank in Washington, D.C. Whenever the balance of \$30,000 is drawn down to a level of \$10,000, KSRI would submit to USAID a request for replenishment of the account. The KSRI Coordinator in the U.S. is empowered by the KSRI President to make disbursements from the funds provided for the purpose specified.

Action Requested: Since the procedure described above -- i.e., a Borrower's representative having free hand to manage a dollar account in a U.S. banking institution -- is somewhat unusual in A.I.D. financial practice, we believe that it would be appropriate to have this account audited

DRA = Direct Reimbursement Authorization

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The audit should ascertain that (i) the requirements set forth in Implementation Letter No. 12 have been adhered to and that (ii) all funds deposited into this account have been accounted for. Per Status of Disbursing Authorization dated 5/31/81, the DRA financing this Riggs account amounted to, \$465,962.68.

Accordingly, your assistance in conducting a limited scope audit of this DRA account would be appreciated prior to our placement of this loan in inactive status. Mr. George Zivadinovich in our Project Development Office (ASIA/PD) is available to facilitate this audit.

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Date	Voucher No.	Amount	Payee
8-21-78	0078334	3000000	Riggs
11-6-78	0079055	7000000	Riggs
2-13-79	0079181	4007119	Riggs
3-21-79	0079231	5992881	Riggs
9-12-79	0079483	10246958	Riggs
7-11-80	0080297	2053042	Riggs
10-02-80	1100016	2439940	Korus, Jr.
10-02-80	1100017	71270	Techtrans
10-10-80	1100044	424528	Victoreen
10-6-80	0081034	(A) 1138859	Riggs
11-24-80	0081084	5000000	Riggs
12-6-80	(A) 0081020	(A) (1138859)	Adjust
12-6-80	(A) 0081020	2185709	Adjust
3-16-81	0081155	1123731	Riggs

Total thru 6-30-81

4,354,517.8

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